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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 000728

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ENERGY FOR WILLIAMSON, EB/ESC/IEC FOR GRIFFIN, NEA/ARP FOR JACKSON

E.O. 12958: DECL: 05/08/2017
TAGS: EPET ENRG EINV PREL KU
SUBJECT: DECISION ON LOUISIANA REFINERY INVESTMENT STILL IN LIMBO

REF: A. 06 KUWAIT 3361

¶B. KUWAIT 707

Classified By: Ambassador Richard LeBaron for reasons 1.4 (b) and (d).

¶1. (SBU) Summary: Kuwait Petroleum International's Chief Planning Officer told Econoff May 8 that in the 6 months following the visit of the Governor of Louisiana to Kuwait for the signing of a Memorandum of Understanding, no decision has been reached on whether Kuwait should invest in a major refinery project in Louisiana. The decision still depends on: (1) Kuwaiti plans for heavy crude production, (2) identifying the right American partner, (3) the federal and state incentives offered, and (4) further evaluation of the legal and regulatory risk. Discussions between Kuwait and Louisiana are ongoing, but the Kuwaitis are unlikely to make a decision in the next few months. End Summary.

¶2. (SBU) On May 8, Econoff met with Kuwait Petroleum International (KPI) Chief Planning Officer Mohammad Rashed Jasim to ask about the status of Kuwaiti plans to invest in a refinery in North America. KPI is the subsidiary of state-owned Kuwait Petroleum Corporation responsible for foreign refining and marketing. The Kuwaitis have been involved in discussions with a number of U.S. state governments, refining companies, and construction companies over the past year to explore the possibility of investing in a new refinery or significantly expanding an existing refinery to process Kuwaiti export crude and heavy crude into refined products for the U.S. market through a joint venture with a U.S. oil company. Kuwait has considered a number of locations both inside and outside the continental U.S. (Ref. A), but has had its most active discussions with the State of Louisiana. In an effort to attract Kuwaiti investment, Governor Blanco of Louisiana visited Kuwait from 10-12 November and met with the Amir, Prime Minister, and Oil Minister. The visit concluded with the signing of a Memorandum of Understanding that loosely committed both parties to cooperate in a feasibility study and continue discussions.

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Decision Delayed by Question of Heavy Crude Production
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¶3. (SBU) Jasim explained that one of the principal reasons for investing in the refinery would be to create a market for heavy crude, which after 2010 is anticipated to make up a significant portion of Kuwait's overall crude oil production. There are currently few refineries to receive this viscous, high specific gravity crude oil, so the Kuwaitis would like to use the prospective refinery to create a guaranteed downstream market for their product. Jasim added that from a

political standpoint, Kuwait is interested in helping to relieve the bottleneck in U.S. refining capacity. According to Jasim, the decision on whether and where to build the refinery is being delayed, first of all, by ambiguity in Kuwait's heavy crude production planning. Currently, Kuwait produces heavy crude on only a small scale as part of a pilot program with the technical assistance of Exxon. Kuwait Oil Company's (KOC) lack of technical expertise and experience with heavy crude and the limited nature of its existing technical service agreement with Exxon are constraining Kuwait's ability to expand its heavy crude production to an industrial scale. The Kuwaitis are considering options for inviting more robust participation by Exxon and/or other international oil companies in upstream exploration and production, but this decision is fraught with political concerns that make the Government, and in turn KOC, reluctant to articulate a clear plan or take any decisive action (Ref. B). Until the Kuwaitis iron out a definitive plan for heavy crude development, Jasim said, any decision on the new refinery will have to be put on hold.

Legal Environment a Major Deterrent

¶4. (SBU) In a separate meeting with Econoff on April 3, KPC General Counsel Shaykh Nawaf Saud Nasir Al-Sabah said that though the Louisiana option has not been ruled out, he has personally advised the KOC Chairman and the Oil Minister against it for two reasons. First, he said, the difficult legal and regulatory obstacles that Kuwait would have to navigate to build a refinery in the U.S. made the option less attractive than other regional locations, such as the Caribbean. Second, referring to anti-trust law suits brought against Saudi Aramco, Citgo, and other OPEC members, he

feared that Kuwaiti assets in the U.S. could be placed at risk.

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Still Weighing Options; Don't Hold Your Breath
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¶5. (C) Post has not been contacted by the State of Louisiana or the Shaw Group (the Louisiana-based company which has been most active in promoting this project to the Kuwaitis) since the Governor's visit to Kuwait in November. Jasim said, however, that the Kuwaitis and the Governor's office have communicated often over the last few months. He added that the Kuwaitis were not satisfied with the Shaw Group, a construction company, and would prefer to partner with an established American oil company, such as Valero. He said that once the plans for heavy crude production were finalized, (a process which he said could take anywhere from six months to a year or more), the decision on where to build the refinery would ultimately depend on having the right partner and the right combination of federal and state incentives. Jasim said that the Kuwaitis were now leaning towards expanding an existing refinery rather than building a new one in the hope of avoiding a number of potential regulatory obstacles. He said that although a firm decision was probably a long way off, he expected to meet with the Oil Minister sometime in the next two weeks to draft a letter to Governor Blanco to inform her of the Kuwaitis' current thoughts on prospects for the project.

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LeBaron